



Emerging Markets Strategy

Market and Performance Overview

Emerging markets returned 4.2% during the month as measured by the MSCI Emerging Markets Index. South Korea was the standout performer with its information technology (IT) sector up 35% in October while industrials rose 21% as both sectors are benefiting from accelerating AI-related demand. Taiwan also outperformed the broad market thanks to ongoing strength among its largest IT companies. Notably, India finished roughly in line with the index in October, reversing a period of year-to-date weakness. Meanwhile China, the largest country weighting in the benchmark, rolled back recent strong gains due to a combination of profit-taking, weakness in health care and a tepid response to the first Trump-Xi meeting in six years.

Within the benchmark, companies in the IT, industrials and energy sectors were the strongest performers as they continued to see broad-based AI tailwinds. Meanwhile, communication services, consumer discretionary, health care and consumer staples companies were laggards for the month.

The ClearBridge Emerging Markets Strategy outperformed its MSCI Emerging Markets Index benchmark in October, supported by strong stock selection in South Korea, Taiwan and South Africa and an underweight to China. From a sector standpoint, stock selection and an overweight to the IT were the primary drivers of relative outperformance, offsetting negative stock selection in the communication services sector.

Individual holdings that performed well during the month included SK Hynix, Samsung Electronics, Hyundai Electric, Taiwan Semiconductor and Sieyuan Electric.

South Korea-based SK Hynix and Samsung were boosted by results from U.S. semiconductor and data center companies, suggesting that the AI infrastructure story continues with vigor, as well as strong DRAM prices. Momentum in Taiwan Semiconductor shares was extended by very strong quarterly results with margins coming in above expectations and positive management commentary around AI demand. Additionally, South Korea's Hyundai Electric and China's Sieyuan Electric both delivered robust results tied to AI-related power demand, with Hyundai seeing a reacceleration in new order growth.

Detractors in the period were Tencent, Shenzhen Inovance, CATL, MakeMyTrip and Trip.com.

Chinese companies Tencent and CATL were pressured by profit taking after strong recent stock performance, while Inovance saw decent quarterly results from its core industrial automation business but sold

off on weaker than expected margins in its auto business. Indian online travel agent MakeMyTrip delivered strong quarterly revenue and earnings gains but was hurt by air travel capacity constraints and a generally weak Indian consumer. Chinese online travel agency Trip.com suffered from similarly subdued consumer demand in its market.

Portfolio Positioning

During the period, there were no new additions or sales of existing holdings.

Outlook

As we progress toward 2026, we think the key drivers of EM returns, and thus the biggest opportunities, will be in technology, and, on a regional level, in India and China. Technology companies in EM are core to the global adoption of AI, and the longer-term structural growth opportunity of EM technology is broader than in developed markets. This should place EM well to succeed in the next 12 months and beyond. With its high-quality, sustainable growth companies, India, though weak so far this year, should return to the strength it saw in 2024 as the market returns to recognizing fundamentals in share prices. Finally, as the largest country in the asset class, China will continue to play a key role, and we believe its recovery has only just begun.

Exhibit 1: China — Valuation Opportunity Remains Compelling



Source: FactSet. Data as of Oct. 6, 2025.

Equity performance improvements in EM year to date have been more company specific than broad based. Investor flows into the asset class have not picked up significantly, which we believe represents a potential coiled spring. Emerging markets continue to trade at a valuation discount to developed markets. Should investors begin to feel that they are missing out on attractive EM returns, positive flows could become a tailwind.

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